

**House File 2049 - Introduced**

HOUSE FILE 2049

BY BALTIMORE

**A BILL FOR**

1 An Act providing an exemption from the computation of the  
2 individual and corporate state income tax of net income  
3 from the sale or exchange by an eligible manufacturer of  
4 tangible personal property that was manufactured within this  
5 state by the eligible manufacturer and including retroactive  
6 applicability provisions.

7 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

1 Section 1. Section 422.7, Code Supplement 2011, is amended  
2 by adding the following new subsection:

3 NEW SUBSECTION. 57. *a.* Subtract, to the extent  
4 included, net income from the sale or exchange by an  
5 eligible manufacturer of tangible personal property that was  
6 manufactured within this state by the eligible manufacturer.  
7 *b.* The adjustment in paragraph "a" for an item of tangible  
8 personal property manufactured both within and without this  
9 state shall not exceed an amount equal to the same proportion  
10 of net income as the allocable costs paid in this state by the  
11 taxpayer for the item of tangible personal property bears to  
12 the total allocable costs paid by the taxpayer for the item of  
13 tangible personal property.

14 *c.* For purposes of this subsection:

15 (1) "*Allocable costs*" means the same as defined in section  
16 263A(a)(2) of the Internal Revenue Code.

17 (2) "*Eligible manufacturer*" means a taxpayer who meets all  
18 the following requirements:

19 (a) The taxpayer's principal business activity is  
20 manufacturing. A taxpayer primarily engaged in selling  
21 tangible personal property or services in order to earn a  
22 profit and only incidentally engaged in manufacturing tangible  
23 personal property is not a manufacturer for purposes of this  
24 subsection.

25 (b) The taxpayer does not claim or receive any tax credits  
26 listed or allowed in division II or III of this chapter for  
27 the tax year in which an adjustment is made pursuant to this  
28 subsection.

29 (3) "*Manufactured*" or "*manufacturing*" means adding value to  
30 personal property through a process of manufacturing, refining,  
31 purifying, combining of different materials, the packaging of  
32 meats, extracting and recovering natural resources, and all  
33 processes of fabricating and curing, with a view to selling the  
34 property for gain or profit.

35 (4) "*Paid*" means paid or accrued or paid or incurred, and

1 the terms "*paid or accrued*" and "*paid or incurred*" shall be  
2 construed according to the method of accounting upon the basis  
3 of which the net income is computed under this division.

4 (5) "*Tangible personal property*" means corporeal personal  
5 property, such as machinery, tools, implements, goods, wares,  
6 computer software, and merchandise, and shall not be taken to  
7 mean money deposits in banks, shares of stock, bonds, notes,  
8 credits, or evidence of an interest in property and evidences  
9 of debt.

10 d. The director shall adopt rules for the administration of  
11 this subsection.

12 Sec. 2. Section 422.33, subsection 4, paragraph a, Code  
13 Supplement 2011, is amended to read as follows:

14 a. Add items of tax preference included in federal  
15 alternative minimum taxable income under section 57, except  
16 subsections (a)(1) and (a)(5), of the Internal Revenue Code,  
17 make the adjustments included in federal alternative minimum  
18 taxable income under section 56, except subsections (a)(4) and  
19 (d), of the Internal Revenue Code, and add losses as required  
20 by section 58 of the Internal Revenue Code. In making the  
21 adjustment under section 56(c)(1) of the Internal Revenue Code,  
22 the net income excluded in section 422.35, subsection 26,  
23 shall be subtracted, and interest and dividends from federal  
24 securities and interest and dividends from state and other  
25 political subdivisions and from regulated investment companies  
26 exempt from federal income tax under the Internal Revenue  
27 Code, net of amortization of any discount or premium, shall be  
28 subtracted.

29 Sec. 3. Section 422.35, Code Supplement 2011, is amended by  
30 adding the following new subsection:

31 NEW SUBSECTION. 26. a. Subtract, to the extent  
32 included, net income from the sale or exchange by an  
33 eligible manufacturer of tangible personal property that was  
34 manufactured within this state by the eligible manufacturer.

35 b. The adjustment in paragraph "a" for an item of tangible

1 personal property manufactured both within and without this  
2 state shall not exceed an amount equal to the same proportion  
3 of net income as the allocable costs paid by the taxpayer in  
4 this state for the item of tangible personal property bears to  
5 the total allocable costs paid by the taxpayer for the item of  
6 tangible personal property.

7 c. For purposes of this subsection:

8 (1) "*Allocable costs*" means the same as defined in section  
9 263A(a)(2) of the Internal Revenue Code.

10 (2) "*Eligible manufacturer*" means a taxpayer who meets all  
11 the following requirements:

12 (a) The taxpayer's principal business activity is  
13 manufacturing. A taxpayer primarily engaged in selling  
14 tangible personal property or services in order to earn a  
15 profit and only incidentally engaged in manufacturing tangible  
16 personal property is not a manufacturer for purposes of this  
17 subsection.

18 (b) The taxpayer does not claim or receive any tax credits  
19 listed or allowed in division II or III of this chapter for  
20 the tax year in which an adjustment is made pursuant to this  
21 subsection.

22 (3) "*Manufactured*" or "*manufacturing*" means adding value to  
23 personal property through a process of manufacturing, refining,  
24 purifying, combining of different materials, the packaging of  
25 meats, extracting and recovering natural resources, and all  
26 processes of fabricating and curing, with a view to selling the  
27 property for gain or profit.

28 (4) "*Paid*" means paid or accrued or paid or incurred, and  
29 the terms "*paid or accrued*" and "*paid or incurred*" shall be  
30 construed according to the method of accounting upon the basis  
31 of which the net income is computed under this division.

32 (5) "*Tangible personal property*" means corporeal personal  
33 property, such as machinery, tools, implements, goods, wares,  
34 computer software, and merchandise, and shall not be taken to  
35 mean money deposits in banks, shares of stock, bonds, notes,

1 credits, or evidence of an interest in property and evidences  
2 of debt.

3 d. The director shall adopt rules for the administration of  
4 this subsection.

5 Sec. 4. RETROACTIVE APPLICABILITY. This Act applies  
6 retroactively to January 1, 2012, for tax years beginning on  
7 or after that date.

8 EXPLANATION

9 This bill relates to the state taxation of net income from  
10 the sale or exchange of tangible personal property manufactured  
11 within the state.

12 The bill exempts from the computation of net income and  
13 state alternative minimum tax for the individual and corporate  
14 income tax all net income from the sale or exchange of tangible  
15 personal property manufactured within the state by an eligible  
16 manufacturer and sold by the eligible manufacturer. To be  
17 considered an eligible manufacturer, a taxpayer's principal  
18 business activity must be manufacturing and the taxpayer must  
19 not claim or receive any tax credits listed or allowed under  
20 the individual or corporate income tax.

21 "Manufactured" and "manufacturing" are defined as adding  
22 value to personal property through a process of manufacturing,  
23 refining, purifying, combining of different materials,  
24 the packaging of meats, extracting and recovering natural  
25 resources, and all processes of fabricating and curing, with a  
26 view to selling the property for gain or profit.

27 "Tangible personal property" is defined as corporeal  
28 personal property, such as machinery, tools, implements, goods,  
29 wares, computer software, and merchandise, and shall not be  
30 taken to mean money deposits in banks, shares of stock, bonds,  
31 notes, credits, or evidence of an interest in property and  
32 evidences of debt.

33 The exemption applies to tangible personal property  
34 manufactured both within and without this state, but is limited  
35 to the same proportion of net income as the allocable costs

1 paid in this state by the taxpayer for the item of tangible  
2 personal property bears to the total allocable costs paid for  
3 the item of tangible personal property. Allocable costs,  
4 as defined in section 263A(a)(2) of the Internal Revenue  
5 Code, generally include those costs that are directly and  
6 indirectly related to the production of property which the  
7 Internal Revenue Service requires a taxpayer to either include  
8 in inventory costs or capitalize. "Paid" is defined to mean  
9 paid or accrued or paid or incurred, depending on the method  
10 of accounting used by the taxpayer to compute net income for  
11 purposes of the individual or corporate income tax.

12 The bill applies retroactively to January 1, 2012, for tax  
13 years beginning on or after that date.